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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000492

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EUR/CARC, EUR/PRA, INSN/RA, AND NEA/ARPI

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TAGS: KNNP ENRG PARM PREL IR AM

SUBJECT: ARMENIA, RUSSIA REACH TENTATIVE DEAL ON ENERGY SUPPLY

REF: A) YEREVAN 393 B) YEREVAN 364 C) YEREVAN 312 D)
YEREVAN 281 E) YEREVAN 150

YEREVAN 00000492 001.2 OF 002

Classified By: Amb. John M. Evans for reasons 1.4 (b, d).

SUMMARY

¶1. (C) A tentative agreement reached April 5 between Armenia and Russia, would transfer ownership of key components of Armenia's dwindling energy infrastructure to Russia in exchange for Russian natural gas subsidies. Under terms of the agreement, Russia appears set to assume immediate control, and ultimate ownership, of the Fifth Unit of the state-owned Hrazdan Thermal Power Plant (the last remaining Hrazdan unit owned by the GOAM). The deal also included a 25-year lease agreement for a significant portion of the state-owned Iran-Armenia gas pipeline, according to a GazProm press statement issued April 6. Kocharyan announced the deal (in general terms) during a press conference following his April 5 meeting with ArmRosGazProm Director Karen Karapetyan. Hoping to soften the political fallout of a fresh transfer of Armenian assets to Russia, Kocharyan told reporters "we need to worry more about energy security than energy independence." End Summary.

THE AGREEMENT: RUSSIANS GAIN FULL OWNERSHIP OF HRAZDAN TPP

¶2. (C) Though specific terms of the agreement would be announced "in the coming days," Armenian President Robert Kocharyan told reporters April 5 that, "Russian investment" in the unfinished Fifth Unit of the Hrazdan Thermal Power Plant would provide the GOAM "enough money for the next three years" to significantly offset the April 1 increase in cost (from USD 56 to USD 110) of Russian natural gas. "The government is tasked to make a final decision on the issue in the next few days," Kocharyan said. An April 6 GazProm press statement asserted the "purchase" of the Hrazdan TPP would be completed by April 14, 2006, with the final transfer of ownership concluded by January 1, 2007. (Note: Minister of Defense Serzh Sargsyan told OSCE Special Representative Andrzej Kasprzyk who told the Ambassador that the Russians would pay somewhere in the neighborhood of USD 250 million for the Fifth Unit of the Hrazdan Thermal Power Plant. End Note.)

RUSSIANS ALSO GET PART-OWNERSHIP OF IRAN-ARMENIA PIPELINE?

¶13. (C) Russia's GazProm announced in the same April 6 press statement that the GOAM had agreed to transfer control of 40 kilometers of the Iran-Armenia pipeline to ArmRosGazProm. (Note: The 40-kilometer stretch would reach from the border at Meghri to the town of Kajaran, the southern extent of ArmRosGazProm's existing line. End Note.) The GOAM, the statement asserted, had signed a 25-year lease agreement giving ArmRosGazProm, and by default Gazprom (which owns a controlling interest in ArmRosGazProm), ownership of the first 40 kilometers of the pipeline extending from the Armenia-Iran border. ArmRosGazProm Spokeswoman Shushan Sardaryan refused to comment on the Gazprom announcement, saying she had "heard nothing about it." Deputy Minister of Energy Iosef Isayan told us the GOAM would only consider selling the Iran-Armenia pipeline once the Fifth Unit of the Hrazdan TPP was operational.

IMPACT ON CONSUMERS

¶14. (SBU) According to Kocharian, the agreement yielded a significant reduction in the expected increase of natural gas prices for Armenian consumers. The local consumer price hike, scheduled to begin April 10, would have cost the average residential customer 40-50 percent more and the average industrial customer 85 percent more per cubic meter of gas (ref B). As a result of the negotiations, Kocharian said, residential prices would increase only ten to fifteen percent.

COMMENT: GOAM SELLING ARMENIA: ASSETS FOR CREDIT

YEREVAN 00000492 002.2 OF 002

¶15. (C) With this announcement, Russia appears poised to obtain another vital piece of Armenia's energy infrastructure. If the deal stands, Russia has deftly extended its monopoly and has ensured Armenia remains solely dependent on Russia for its natural gas supply.
EVANS